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REGIONAL COOPERATION IN THE ECONOMIC, SOCIAL AND RELATED FIELDS

Summary of the survey of economic and social developments in the region of the Economic and Social Commission for Western Asia, 1993

SUMMARY

The overall economic performance of the countries of the region covered by the Economic and Social Commission for Western Asia (ESCWA) slowed down considerably in 1993, with the exception of Kuwait. Aggregate gross domestic product (GDP) is estimated to have grown by 3.5 per cent, compared with 6.8 per cent in 1992. All countries, however, with the exception of Qatar and Yemen, recorded positive growth rates. However, with the exception of Kuwait, Lebanon and the Syrian Arab Republic, these rates were below those realized in 1992.

Several developments have contributed to the overall slow-down in economic activity in the region. They include: (a) lower oil prices and revenues; (b) depressed export performance; (c) continuation of economic sanctions against Iraq, which have not only exacerbated the country's difficulties in getting the economy back on a growth track, but also harmed other countries that have traditionally maintained close economic ties with it; (d) attacks on tourists in Egypt, which not only depressed activity in a key sector directly, but have also affected negatively the confidence of investors - especially foreign investors - in the economy; (e) persistence of the political crisis in Yemen; (f) the generally depressed state of regional cooperation, despite some reconciliatory tendencies; and (g) the limited progress achieved in mobilizing resources for reconstruction.

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International economic developments were generally not favourable. World output grew by a mere 1 per cent in 1993, while growth in the volume of world exports slowed down to 3.4 per cent, from 5.2 per cent in 1992. The world trade system, however, was given a big boost by the successful completion of the Uruguay Round of multilateral trade negotiations towards the end of the year, after seven years of negotiations.

Several positive developments have partially offset the slow-down:

(a) Economic reform remained a major concern for a number of countries and gained momentum in 1993. Overall, the impact of economic reform on internal and external balances has been positive. Jordan, for example, managed to achieve for the second year running a positive and significant growth in its gross domestic product (6 per cent); hold down the rate of inflation at below 5 per cent; reduce unemployment by about 4 percentage points to 11 per cent; improve the overall budgetary situation by launching the first ever deficit-free budget in the history of the kingdom (in 1994) and have current expenditures and a large part of investment expenditures met from domestic revenues; and reschedule debts owed to the Paris Club estimated at $650 million and reach agreement with London Club creditors on restructuring debts amounting to $895 million. Similarly, Egypt recorded a further decline in the budget deficit and lowered the inflation rate further. Egypt also reached an accord with the International Monetary Fund (IMF) whereby it obtained a three-year loan of $569 million to support its efforts to open up and reform its economy, which made possible the forgiveness of a second tranche of 15 per cent of its debt to the Paris Club members, estimated at $25 billion, under an agreement reached in 1991 by which the Paris Club agreed to write off 50 per cent of Egypt's foreign debt, contingent on its satisfying IMF conditions.

(b) The prospects and performance of the Lebanese economy continued to improve in 1993, as reflected in a number of significant initiatives and indicators, including the following: launching of the $1.8 billion Lebanese Company for the Development and Reconstruction of Beirut Central District (SOLIDERE); improved prospects for external financing of reconstruction and rehabilitation, reflecting improved donors' confidence; and positive developments in virtually all the basic growth indicators.

(c) With the exception of Iraq and Yemen, inflation in the region has been held in abeyance, ranging between 1 and 4 per cent in the countries that are members of the Gulf Cooperation Council (GCC), and between about 5 and 12 per cent in the other countries.

(d) There have been good agricultural harvests, notably in the Syrian Arab Republic.

(e) Kuwait has restored oil-production capacity to pre-crisis levels, leading to a sharp rise in oil revenues.

(f) The decline in oil prices and revenues notwithstanding, the GCC economies have continued to benefit from the rise in domestic demand and generally buoyant private sector activity.

(g) Significant private sector capital repatriation has been reported for both Lebanon and Saudi Arabia.

The aggregate GDP of the GCC countries is estimated to have grown by about 3.3 per cent in 1993, compared with 7.5 per cent in 1992. The lower growth recorded could largely be attributed to the poor performance of the oil sector, with the exception of Kuwait, which continued, for the second year, to increase significantly its oil production and revenues. The slow-down was less pronounced in the more diversified economies where GDP growth slowed down from 5.6 per cent to 4.1 per cent. The GDP of the least developed member country, Yemen, declined by 1 per cent.

Total identified external debt of the ESCWA region is estimated to have risen from $180 billion in 1992 to $186 billion in 1993, representing about 62 per cent of the region's aggregate GDP. However, the main debtor countries in the region were faced with less severe debt problems in 1993, compared with the past few years. Egypt benefited from the debt-reduction schemes of the Paris Club, while Jordan signed, in late 1993, a Brady-style agreement with commercial banks for debt and debt-service payments reduction.

Oil production in the ESCWA region increased in 1993 by 4.5 per cent to 15.6 million barrels per day (mb/d), up from 14.9 mb/d in 1992, raising the region's share in total world production to 24 per cent, up from 22.9 per cent in 1992. However, the overall increase was unevenly distributed among member countries. While Kuwait managed to increase its daily production by 75.5 per cent and the Syrian Arab Republic by 7.5 per cent, production declined in Saudi Arabia and the United Arab Emirates by 2.3 and 2.1 per cent, respectively.

Under the impact of unfavourable demand and price developments, the region's oil revenues in 1993 declined to $72.5 billion, down from $78.1 billion the year before. Kuwait and the Syrian Arab Republic managed to increase their oil revenues by 46.8 and 12.6 per cent, respectively, owing to higher output.

Fiscal developments in the ESCWA region in 1993 were still affected by the ramifications of the Gulf crisis and the sharp drop in oil revenues in the major oil-exporting countries. In the GCC countries, the drop in oil revenues, which constituted most of the budget revenues, complicated the financial situation of those countries and added to the budget burdens, particularly in Saudi Arabia and Oman, as reflected in the significant increase in projected budget deficits. On the other hand, fiscal developments in the countries with more diversified economies, with the exception of Yemen and Iraq, showed lower than projected budget deficits.

Banks in the ESCWA region continued to be faced with pressure to maintain an internationally accepted capital-adequacy ratio of at least 8 per cent.

Most banks in the region raised their capital, either through their own resources or by placing equities in the market. They continued to suffer from a mounting burden of non-performing loans, most of which were contracted during the 1980s and estimated at about $25 billion.

The combined current account balance of the ESCWA region (excluding Iraq, Lebanon, Qatar, the United Arab Emirates and Yemen, for lack of data) registered a deficit of $19.6 billion in 1992, a considerable improvement compared to the $39.3 billion deficit recorded in 1991. This relative improvement came about as the GCC countries reduced their deficit from $42.4 billion to $21.7 billion, owing mainly to the significant drop in services and unrequited transfers deficits.

The region's international reserves (excluding Iraq, the Syrian Arab Republic and Yemen) rose from $36.4 billion in 1991 to about $38 billion in 1992. The improvement was totally attributed to a rise of $5.5 billion in Egypt's reserves, offsetting the $3.8 billion drop in those of the GCC countries. During the first nine months of 1993, the region's international reserves dropped by $1.9 billion, reflecting a further deterioration in GCC countries reserves (excluding Oman), whereas the reserves of other ESCWA countries increased by $0.7 billion.

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I. OVERALL ECONOMIC PERFORMANCE

1. The overall economic performance of the ESCWA region slowed down considerably in 1993. Aggregate GDP is estimated to have grown by 3.5 per cent, compared with 6.6 per cent in 1992. All countries, however, with the exception of Qatar and Yemen, achieved positive growth rates in 1993.

2. Several developments have contributed to the overall slow-down in economic activity in the region. They include: (a) lower oil prices and revenues; (b) depressed export performance; (c) continuation of economic sanctions against Iraq, which not only exacerbated the country's difficulties in getting the economy back on a growth track, but also harmed other countries that have traditionally maintained close economic ties with it; (d) attacks on tourists in Egypt, which not only depressed activity in a key sector directly, but have also affected negatively the confidence of investors - especially foreign investors - in the economy; (e) persistence of the political crisis in Yemen; (f) the generally depressed state of regional cooperation, despite some reconciliatory tendencies; and (g) the limited progress achieved in mobilizing resources for reconstruction.

3. International economic developments were mostly unfavourable. World output grew by a mere 1 per cent in 1993, while growth in the volume of world exports slowed down to 3.4 per cent, from 5.2 per cent in 1992. The world trade system, however, was given a big boost by the successful completion of the Uruguay Round of multilateral trade negotiations towards the end of the year, after seven years of negotiations. In addition to the expected increase in the volume of world trade and output, a more lasting and significant contribution of the Uruguay Round is, perhaps, the creation of the World Trade Organization, which is expected to guarantee fair trade and the settlement of trade disputes.

4. Several positive developments have partially offset the slow-down:

(a) Economic reform remained a major concern in 1993 for a number of countries in the ESCWA region and gained further momentum. Egypt and Jordan continued to pursue policies advocated by the International Monetary Fund and the World Bank, aimed essentially at the correction of macroeconomic imbalances (stabilization) and at putting their economies on a sustainable economic growth path (adjustment). 1/ Lebanon pursued essentially a stabilization policy, which is implicitly in line with the prescriptions of the Bretton Woods institutions, while the Syrian Arab Republic continued to pursue policies it had initiated earlier and aimed at gradually opening up and deregulating the economy, as well as according greater importance to the private sector in economic activity and in influencing economic decisions through consultation with its representatives. In Saudi Arabia, a major focus of policy in 1993 was the "reorientation of the economy from growth based on public sector initiatives to one where the private sector takes the lead". 2/

In Egypt, the problems related to the deregulation of the economy and reducing the size and scope of government involvement by means of privatization assume greater importance in the reform package agreed to in view of the size and extent of public sector involvement in economic activity. The magnitude of

the task and differences with the sponsoring institutions regarding the pace of privatization and trade liberalization have held down agreement with the International Monetary Fund for several months on the second phase of economic reform, with negative impact on economic growth and the state of investors' confidence because of the uncertainty the delay generated. Moreover, Egypt has had to cope with the social impact of the reform measures on a much larger poor population. The setting up of an Emergency Social Fund (ESF), with financing amounting to $613 million spread over five years notwithstanding, according to a report prepared by the United Nations Conference on Trade and Development (UNCTAD), "the poorest appear to be a minority among ESF beneficiaries, while the bulk of its operations benefited well-organized and vocal urban middle-income groups." 3/

Overall, the impact of economic reform on internal and external balances has been positive. Jordan, for example, managed to achieve for the second year running a positive and significant growth in its gross domestic product (6 per cent); hold down the rate of inflation at below 5 per cent; reduce unemployment by about 4 percentage points to 11 per cent; improve the overall budgetary situation by launching the first ever deficit-free budget in the history of the kingdom (in 1994) and have current expenditures and a large part of investment expenditures met from domestic revenues; and reschedule debts owed to the Paris Club estimated at $650 million and reach agreement with London Club creditors on restructuring debts amounting to $895 million. Similarly, Egypt recorded a further decline in the budget deficit and lowered the inflation rate further. Egypt also reached an accord with the International Monetary Fund, whereby it obtained a three-year loan of $569 million to support its efforts to open up and reform its economy, which made possible the forgiveness of a second tranche of 15 per cent of its debt to the Paris Club members, estimated at $25 billion, under an agreement reached in 1991, by which the Paris Club agreed to write off 50 per cent of Egypt's foreign debt contingent on its satisfying IMF conditions.

(b) The prospects and performance of the Lebanese economy continued to improve in 1993, as reflected in a number of significant initiatives and indicators:

(i) Launching of the $1.8 billion Lebanese Company for the Development and Reconstruction of Beirut Central District (SOLIDERE) and the over-subscription of the share offer of $650 million by about $270 million, with nearly one half of the total coming from deposits held by Lebanese abroad, thus re-enforcing the trend towards capital repatriation;

(ii) Improved prospects of external financing of reconstruction and rehabilitation, reflecting improved donors' confidence. Indicative in this respect are contributions coming from the World Bank, the European Investment Bank and national and regional funds, and the resumption by Germany and the United Kingdom of Great Britain and Northern Ireland of guaranteeing exports to Lebanon;

(iii) Virtually all basic growth indicators were positive: an overall growth rate estimated at about 7 per cent, compared to 5 per cent in 1992; a stable rate of exchange of the Lebanese pound, with a slight tendency towards improvement; a sharp drop in the inflation rate, from about 130 per cent in 1992 to about 9 per cent in 1993, helped by favourable developments in the exchange rate and lower growth in the money supply; some reduction in the extent of dollarization of the economy; significant improvement in the balance-of-payments situation, with an overall surplus of about $1.1 billion (including amounts transferred to finance subscriptions in SOLIDERE), compared to a surplus of only $54 million in 1992, and a rise in foreign exchange holdings of the Bank of Lebanon, from about $1.5 billion at the end of 1992 to $1.7 billion at the end of 1993; improved public finances with a sharp rise in revenues from improved collection and higher economic activity, especially construction, where building permits are estimated to have exceeded 12 million square metres, or about one sixth of total built area in the country; and a rise in the consolidated balance sheet of the banking system, from $7.9 billion at the end of 1992 to $11.9 billion at the end of 1993.

(c) With the exception of Iraq and Yemen, inflation has been held in abeyance, ranging between 1 and 4 per cent in the GCC countries, and between about 5 and 12 per cent in the other countries.

(d) There have been good agricultural harvests, notably in the Syrian Arab Republic.

(e) Kuwait has restored oil-production capacity to pre-crisis levels, leading to a sharp rise in oil revenues.

(f) The decline in oil prices and revenues notwithstanding, the GCC economies continued to benefit from the rise in domestic demand and generally buoyant private sector activity.

(g) Significant private sector capital repatriation has been reported for both Lebanon and Saudi Arabia.

5. The aggregate GDP of the GCC countries is estimated to have grown by about 3.3 per cent in 1993, compared with 7.5 per cent in 1992. The lower growth recorded in the GCC countries could largely be attributed to the poor performance of the oil sector, with the exception of Kuwait, which continued, for the second year, to increase its oil production and revenues significantly, despite the drop in oil prices in 1993. The oil sector in the rest of the GCC countries is estimated to have declined by more than 10 per cent in 1993, thus negatively affecting public expenditure, while growth in the non-oil sector failed to compensate for the decline.

6. The highest growth rate (25 per cent) among the GCC countries was achieved by Kuwait, the only country in the group that managed to increase its oil production and revenues sharply in 1993, and to continue its recovery in reconstruction and rehabilitation.

7. The Bahraini economy is estimated to have grown by 2 per cent in 1993 - the same rate as in 1992. Oman witnessed a decline in its economic growth in 1993, to 4.0 per cent, down from 6.8 per cent in 1992. In Saudi Arabia, GDP, which grew by 4.3 per cent in 1992, is estimated to have grown by about 1 per cent in 1993. In the United Arab Emirates, the overall growth rate of 1 per cent was attributed to the non-oil sector. However, the good performance of the non-oil sector failed to compensate for the slow-down in the oil sector.

8. The drop in oil revenues further worsened the financial position of some GCC countries and obliged them to resort to borrowing from international financial markets and to draw on their financial assets to meet the high costs related to defence, reconstruction and rehabilitation. The decline in oil prices and revenues has given additional impetus to the GCC countries' efforts to promote the non-oil sector by way of privatization. In addition, most GCC countries have undertaken measures aimed at rationalizing public expenditure, including cutting subsidies and introducing more realistic pricing systems for public goods and services.

9. Economic growth in the group of more diversified economies also slowed down in 1993, with the exception of Lebanon and the Syrian Arab Republic. The combined GDP of the group is estimated to have grown by 4.1 per cent in 1993, compared with 5.6 per cent in 1992.

10. Jordan is estimated to have achieved a growth rate of 6 per cent in 1993. While this represents a deceleration from the exceptionally high rate (11 per cent) achieved in 1992, it was still impressive taking into consideration the prevailing economic conditions in the region. Success in implementing economic reform and structural adjustment policies enabled the country to reduce its external and internal imbalances and create a favourable investment climate. Workers' remittances are believed to have increased in 1993 as a result of the return of some Jordanian nationals to the GCC countries and/or their finding other employment outlets. Unemployment, however, continued to be a major problem.

11. The Egyptian economy is estimated to have grown by 1.8 per cent in 1993, compared with 3 per cent in 1992. This is attributed to lower oil and tourism revenues, as well as a contraction in investment activities. The tourist industry, which represents an important source of foreign exchange, has been hit by attacks on foreigners, thus reducing tourism revenues by about 30 per cent in 1993. Despite the significant results achieved in reducing macroeconomic imbalances, the privatization process, trade liberalization and regulation of the labour market are still facing difficulties, which in turn have limited private investment opportunities, hence negatively affecting overall economic growth. Unemployment, one of the major problems facing the Egyptian economy, has not improved.

12. Iraq's economic and social conditions continued to deteriorate as a consequence of the Gulf war and the effect of United Nations sanctions, as reflected in the depreciation of the Iraqi dinar, high inflation and shortages in foodstuffs, medicine and intermediate products.

13. In Lebanon, GDP is estimated to have grown by 7 per cent in 1993, up from 5 per cent in 1992, reflecting the consolidation of security and political stability which contributed to improving the investment environment in the country and increasing donors' confidence.

14. In the Syrian Arab Republic, GDP is estimated to have grown by 6 per cent in 1993, from 5 per cent in 1992. The continued good performance of the Syrian economy has been stimulated by economic reform policies, which promoted private sector investment, a good agriculture harvest and the reduction of the budget deficit and the gradual elimination of price distortions.

15. In Yemen, the least developed member in the region, GDP is estimated to have declined by 1 per cent in 1993, owing to the political crisis that aggravated economic conditions and reduced external financial resources (workers' remittances and aid). Shortages in foreign currency and a widening budget deficit resulted in a higher inflation rate (more than 55 per cent), sharp depreciation of the exchange rate and increased unemployment to more than 25 per cent.

16. With the exception of Iraq and Yemen, inflation in the region has been held in abeyance, ranging between 1 and 4 per cent in the GCC countries, and between about 5 and 12 per cent in the other countries. In Egypt, the rate of inflation reached a three-year low of 7.4 per cent in the year ending January 1994. In Lebanon, the rate of inflation dropped to 8.9 per cent - its lowest level in 10 years - from 13.1 per cent in the previous year. Inflation in Jordan fell to below 5 per cent. The rate of inflation in the Syrian Arab Republic, in contrast, rose from 9 per cent in 1992 to 12 per cent in 1993; a contributing factor to that increase was the gradual elimination of subsidies. Iraq continued to suffer from excessively high inflation rates. The political stalemate in Yemen accentuated the pressure on the rate of exchange and pushed the rate of inflation to 55 per cent.

17. Although significant progress has been achieved in reducing macroeconomic imbalances in some of the more diversified economies, especially Egypt and Jordan, unemployment remained a major problem. The slow-down in economic activity in Egypt and the returnees from the Gulf exacerbated the unemployment problem. While official estimates put the unemployment rate at about 12 per cent of the labour force, unofficial estimates put it as high as 20 per cent. In Jordan, high economic growth and the significant success achieved in reducing external and internal imbalances contributed to the reduction in the unemployment rate to about 11 per cent. In Yemen, the continued political crisis aggravated economic and social conditions and accentuated the unemployment problem; the unemployment rate has been put unofficially at about 25 per cent in 1993.

II. SECTORAL DEVELOPMENTS

18. The oil sector, which remains the major determinant of the level of economic activity in the region, performed poorly in 1993, despite higher production levels.

19. Production of oil in the ESCWA region increased in 1993 by 4.5 per cent to 15.6 mb/d, up from 14.9 mb/d in 1992, raising the region's share in total world production from 22.9 to 24 per cent. However, the overall increase was unevenly distributed among member countries; while Kuwait managed to increase its average daily production by 75.5 per cent, and the Syrian Arab Republic by 7.5 per cent output declined in Saudi Arabia and the United Arab Emirates by 2.3 and 2.1 per cent, respectively. Iraq continued to be prevented by United Nations economic sanctions from exporting oil, with the exception of the 50,000 barrels per day exported to Jordan in debt repayment.

20. In 1993, oil prices averaged $16.3 per barrel, their lowest level in four years, representing a decline of 11.3 per cent from $18.4 per barrel the year before. The underlying factors include lower than expected world demand (demand declined in 1993 by 0.2 per cent); inability of the Organization of the Petroleum Exporting Countries (OPEC) to agree on lower production ceilings; higher output by non-OPEC members; and speculation about lifting of sanctions against Iraq's oil exports.

21. Under the influence of these unfavourable demand and price developments, oil revenues in the ESCWA region declined by 8.2 per cent, that is, from $78.1 billion in 1992 to $72.5 billion in 1993. Kuwait and the Syrian Arab Republic managed to increase their oil revenues by 46.8 and 12.6 per cent, respectively, owing to higher production. The drop in revenues in the other oil-exporting countries ranged from 18.6 per cent in Qatar to 15.9 per cent in Saudi Arabia, 8.3 per cent in Egypt and 2 per cent in the United Arab Emirates.

22. OPEC policy in 1993 continued to focus on defending its market share, reflecting the financial constraints facing most of the organization's members, and its inability to agree with non-OPEC oil producers on output levels that reflect a more favourable balance between supply and demand. Competition over market shares has also prevented OPEC members from agreeing among themselves so as to reduce output and redistribute quotas in line with the realities of the market.

23. Proved oil reserves in the ESCWA region declined by 0.4 per cent in 1993 to 572.3 billion barrels, accounting for 74.1 and 57.3 per cent of OPEC and world total reserves, respectively. Proved reserves of Saudi Arabia, estimated to have declined by 0.6 per cent to 258.7 billion barrels, accounted for 45.2 per cent of the ESCWA total, 33.5 per cent of the OPEC total and about 26.0 per cent of that of the world. Oil reserves in Iraq remained unchanged in 1993, at 100 billion barrels, followed by the United Arab Emirates, 98.1 billion barrels, and Kuwait, 94 billion barrels. Proved oil reserves in the ESCWA region can sustain the current level of oil production for another 100.6 years, compared with 82.8 years for the OPEC countries as a group and only 42.1 years for the world.

24. With respect to the oil-refining industry, a number of projects are under way to build new and expand existing refineries. Egypt is considering expanding its refining capacity to meet the expected increase in demand. It envisages an expansion programme costing $1.2 billion during the next few years. In Saudi Arabia, the increase in refining capacity in Yenbu by 130,000 b/d is expected to be completed in 1995. Other projects in the region include

expanding the United Arab Emirates refinery in Ruwais by 160,000 b/d and upgrading and expanding the Aden refinery in Yemen by adding 70,000 b/d to existing capacity, with plans to build a new refinery in Mukalla with a capacity of 100,000 b/d. The reorganization of Saudi Arabia's refining industry, where the refinery company SAMAREC was taken over by ARAMCO, will create one of the world's largest oil and refining companies.

25. The gas reserves of the region increased from 20,730 billion cubic metres (bcm) in 1990 to 24,619 bcm in 1993, that is, an increase of 18.9 per cent over a three-year period, to account for about 17 per cent of the world total. Countries with large reserves pursued export strategies. Oman, where gas reserves more than doubled during the past two years, is preparing a feasibility study for exporting liquified natural gas (LNG) to southern Europe and plans to export gas to India. Marketed production of natural gas in Qatar has increased by more than 79 per cent since 1990. The export-oriented phase of the North Field Development Project, currently under way, includes building pipelines, liquefaction and shore facilities. Qatar possesses more than 20 per cent of the ESCWA region's natural gas reserves, most of which are located in the North Field. Saudi Arabia's marketed production of natural gas has increased modestly in recent years, though reserves have remained largely unchanged. Gas is used as a feedstock in Saudi Arabia's petrochemical industry, as well as for domestic consumption. In the United Arab Emirates, marketed production has increased by almost 50 per cent since 1990, though much of it is for domestic consumption. Abu Dhabi and Sharja are the main producers of gas in the United Arab Emirates. Industries and electricity-generating plants are switching to natural gas as an energy source throughout the country, owing to its cost-effectiveness and being environment friendly. The United Arab Emirates undertook plans to expand its LNG facilities during 1993 in response to a Japanese undertaking to double its purchases over the next 25 years.

26. The agricultural production index of the region was 2.6 per cent higher in 1993 than in 1992, albeit with wide intercountry differences. The index was higher in Iraq, the Syrian Arab Republic, Lebanon, Egypt and Yemen, by 7.5, 4.8, 3.8, 2.6 and 1.2 per cent, respectively, and lower in Jordan and Saudi Arabia, by 5.9 and 0.5 per cent, respectively. The region's food production index increased by almost 3 per cent in 1993. Cereal production was estimated at 29.3 million tons, representing a 7.5 per cent increase over 1992, mainly as a result of an expansion in cereal production in the Syrian Arab Republic of 30 per cent and, in Iraq, of 9.1 per cent.

27. Wheat production grew by 4.7 per cent in 1993, to 13.7 million tons, up from 13.1 million tons in 1992. The Syrian Arab Republic achieved the largest growth rate (21.5 per cent), followed by Iraq (18 per cent) and Egypt (3.6 per cent); however, wheat production declined in Jordan, Saudi Arabia, Yemen and Lebanon, by 29.3, 8.5, 7.9 and 3.8 per cent, respectively.

28. The rate of industrialization in the region continued to advance during the past few years, albeit at a slower pace, still influenced by the aftermath of the Gulf crisis. Greater emphasis is being given in most countries of the region to export-oriented small- and medium-scale private industries, with increased interest in the GCC subregion in downstream operations to accelerate the diversification of their economies.

29. The expansion of industrial capacity, particularly in the GCC subregion, and the industrial capacities that were built in heavy industries therein - such as petrochemicals and basic metal industries - have created good opportunities for further expansion in downstream industries, and for a more integrated subregional industrial sector, with better prospects for small- and medium-scale private and foreign manufacturing investment. The prevailing systems of cost and revenue incentives, and the attempts to improve the investment environment in the GCC countries, should help to realize part of these potentials. To this effect, additional benefits are granted to foreign investors in most countries of the ESCWA region to help upgrade the industrialization process with improved technologies, management and marketing techniques.

30. The relative contribution of the sector, however, has declined from 11.0 per cent of GDP in 1989 to 9.7 per cent in 1991. This was largely due to the devastating effects that the Gulf war had on the industrial sector in both Iraq and Kuwait. The manufacturing sector in the region continued to be constrained by the size of the domestic market, contraction in aggregate demand, loss of some traditional markets and increased difficulties to access new markets, owing to the current world economic recession, stiff competition from industrialized countries and protectionist measures against manufacturing products, particularly petrochemicals.

31. The region's exports and imports recorded noticeable increases in 1992, compared to 1991, despite the exclusion of Iraq from the world market owing to United Nations economic sanctions. Total exports reached $99.2 billion in 1992, reflecting a 10.3 per cent growth over 1991; while imports increased by 16 per cent, that is, more than double their rate of increase in 1991, to reach $87.1 billion. The $9.3 billion increase in exports was totally attributed to the GCC countries, as exports of other ESCWA countries declined slightly. Apart from Bahrain, all GCC countries participated in the increase, particularly Kuwait, where exports rose from just over $0.5 billion in 1991 to $6.5 billion in 1992. The second major contributor was Saudi Arabia, with an increase of about $2 billion. On the import side, all member States contributed to the increase of about $10 billion, the bulk of which, however, was recorded by the GCC countries, mainly Saudi Arabia ($4.5 billion) and the United Arab Emirates ($3.6 billion), owing to the continued high level of economic activities following the Gulf war. The imports of other ESCWA countries increased by $2.7 billion in 1992.

32. As imports increased faster than exports, the region's ability to finance imports from the proceeds of exports deteriorated further in 1992 compared to the previous two years, with the region's export/import ratio declining from 1.44 and 1.21 in 1990 and 1991, respectively, to 1.14 in 1992.

33. Partial and preliminary data on the geographic distribution of the region's trade up to June 1993, show no major departure from previous years. Developed market economies remained the region's main trading partners, followed by other developing countries. However, the importance of developed market economies in the region's total exports declined from an average of 54 per cent in 1992 to 51.3 per cent in 1993, while the share of other developing countries recorded the highest level (26.3 per cent) since 1985. The share of intraregional exports of 10 per cent was slightly below that of 1992. The share of the former

centrally planned economies dropped in 1993 by more than 40 per cent below the 1992 level, to 1.3 per cent, as difficulties, including contraction in economic activity and foreign exchange shortages accompanying the transition process in many of them, continued.

34. On the import side, the developed market economies continued to supply more than 60 per cent of the region's import requirements. The share of the United States of America increased from 11.5 per cent in 1990 to 15.9 per cent in 1991, 16.8 per cent in 1992 and 17 per cent in 1993. Intraregional imports, which rose from 6 per cent in 1992 to 6.3 per cent in 1993, remained considerably below their pre-Gulf crisis (1989-1990) level of 10.4 per cent.

35. The combined current account balance of the region (excluding, for lack of data, Iraq, Lebanon, Qatar, the United Arab Emirates and Yemen) recorded a deficit of $19.6 billion in 1992, compared to a deficit of $39.3 billion in 1991. The relative improvement came about as the GCC countries reduced their deficit from $42.4 billion to $21.7 billion, owing to a significant drop in the deficit in services and unrequited transfers, while the surplus of the more diversified economies dropped from $3.1 billion to $2.1 billion.

36. The region's international reserves (excluding Iraq, the Syrian Arab Republic and Yemen) rose from $36.4 billion in 1991 to about $38 billion in 1992. The improvement was totally attributed to a rise of $5.5 billion in Egypt's reserves, with the GCC countries' reserves dropping by $3.8 billion. During the first nine months of 1993, the region's reserves dropped by $1.9 billion, reflecting further deterioration in the international reserves of the GCC countries (excluding Oman) from $19.4 billion to $18.4 billion, whereas the reserves of other ESCWA countries increased by $0.7 billion.

37. Higher imports, coupled with a slight decline in reserves, reduced the region's ability to provide for imports in 1992, compared to 1991, with the reserves/import ratio dropping from 5.86 months to 5.23 months.

38. Available information for 1993 relating to oil exports and exports from Egypt and Jordan point to a decline in total exports from the region. Imports, however, are likely to have continued to increase, partly because of the high level of economic activity in the GCC non-oil sector and the higher demand recorded in Egypt, Jordan and Lebanon.

39. The external debt of the ESCWA region is estimated to have risen from $180 billion in 1992 to $186 billion in 1993, representing 62 per cent of the region's aggregate GDP of about $298.8 billion. Compared with other developing countries, the ESCWA region is considered to be heavily indebted in terms of both GDP and exports of goods and services. While the aggregate GDP of the region and its export of goods and services constituted about 5.6 and 6.2 per cent of total developing countries' GDP and exports of goods and services, respectively, its external debt constituted about 11.5 per cent of that of the developing countries. The region as a whole faced fewer external debt-related problems in 1993. Egypt benefited from the debt-reduction schemes of the Paris Club following agreement with the International Monetary Fund whereby it was forgiven of a second tranche of 15 per cent of the debt owed to the group of about $25 billion. In late 1993, Jordan also signed a Brady-style

agreement with commercial banks for a debt and debt-services payments reduction, where the terms involved par and discount bonds and a limited debt buy-back option.

40. Despite forgiveness of a significant part of the external debt of Egypt, and, to a lesser extent, of that of Jordan and Yemen, the increase in the region's external debt during the past two years is attributed to the rise in the GCC countries' debt, which, in 1993, constituted about 60 per cent of the region's total external debt and was mostly commercial and medium-term (about 70 per cent of the total). Reduced foreign reserves and the need to finance budget deficits also forced the GCC countries to resort to external borrowing. The drop in oil prices and revenues augmented the pressure on financial resources that the Gulf crisis triggered, obliging especially Saudi Arabia and Kuwait to finance public investments and balance-of-payments deficits through external borrowing.

41. Fiscal developments in the GCC countries in 1993 were still affected by the ramifications of the Gulf crisis, with some of these countries either drawing on their foreign resources or borrowing from domestic and international financial markets to finance budget deficits. The drop in oil revenues added to the budget burdens of these countries, especially Saudi Arabia, Kuwait and Oman, as reflected in the significant increases in the 1993 projected budget deficits. The expectation of continued pressure on oil prices in 1994 has prompted most of the GCC countries to consider significant cuts in public expenditures, with Saudi Arabia, for example, planning a cut of 20 per cent, mostly subsidies, by cutting purchases of cereals, which account for most of the budget subsidies. Other measures aiming at reducing the burden of budget deficits include increased efforts concerning the introduction of a taxation system in some countries, as well as privatization of public sector enterprises in others. Kuwait is considering a new system of fees, duties and stamps and a more realistic pricing system for public goods and services, as well as privatization of the telecommunications services and the electricity power station in Shuaiba.

42. In the more diversified economies, fiscal developments in 1993 were characterized by significant differences between individual countries. While in Jordan and Lebanon the estimated 1993 deficits reflect lower spending and higher revenues than previously projected, hence resulting in a lower than projected deficit, the estimated 1993 deficit for Yemen turned out to be more than double the one projected. The 1993 budgets of most countries in the group were intended to be deflationary, with expenditures increasing at rates below inflation, thus reflecting the intention to reduce budget deficits in the light of the reduced availability of financial resources, particularly from the GCC countries. The more diversified economies continued in 1993 to seek alternative means to finance their budget deficits, either by increasing budget revenues or by reducing expenditures, through reduction in subsidies or payments on servicing domestic as well as external debt, with the former being made through lowering the domestic interest rate, and the latter through rescheduling or forgiveness.

43. Banks in the ESCWA region continued in 1993 to suffer from a mounting burden of non-performing loans, most of which were contracted during the 1980s. These loans, estimated to be about $25 billion at the end of 1993, constituted

close to 35 per cent of total bank lending, about 9 per cent of total bank assets and five times the combined profit of banks in Western Asia.

44. Stock markets in the ESCWA region are increasingly being recognized as an essential prerequisite for financial and economic development, especially in countries where the dominant role of the State in economic activities has been on the wane. The opening-up of the economy in a number of ESCWA countries to market forces has given closely held companies the opportunity to raise funds from non-traditional sources, thus paving the way for financial institutions to diversify their lending and investment portfolios.

45. Stock markets in the region have experienced a surge during the past few years. The value of traded shares amounted to about $7.6 billion in 1993, an increase of 31 per cent over 1992 and 65 per cent over 1991, and the number of shares to about 680 million, up by about 7 and 19 per cent, respectively.

46. Owing to the improved level of activities and dealing standards at the Jordanian stock market, the International Finance Corporation has ranked this market as an emerging one among the 20 other markets in the developing countries in 1993. The Saudi stock market has developed to become the largest in the ESCWA region, namely, in terms of capitalization, but remained closed to foreign investors. Plans are under way to make the Bahraini stock market an international one by permitting the listing of foreign companies and allowing foreigners to buy and sell shares of these companies, in addition to investing in shares of local companies. In Egypt, although more than 670 companies were listed on the Cairo stock exchange at the end of 1993, with about $2.7 billion market capitalization, only part of their shares were permitted on the floor, thus reducing the market capitalization to about $1 billion. The Government of Egypt is planning to modernize the trading system at the Cairo stock exchange and introduce new legislation to regulate its activities.

47. Economic prospects for the region in 1994 will be shaped by a number of developments, including (a) the situation in the oil market; (b) maintaining the momentum of economic reform; (c) the pace of reconstruction and rehabilitation; (d) developments with respect to the sanctions imposed on Iraq; (e) resolving the political stalemate in Yemen; (f) containing the developments adversely affecting Egypt's tourism industry; and (g) progress in the peace process. While it is difficult to predict the course of events, it appears that developments in the oil markets are likely to remain unfavourable, while those regarding reconstruction (Lebanon, in particular) and economic reform will be favourable.

III. SOCIAL DEVELOPMENTS

48. While the quality of life in the region has continued to improve in general, rapid political, economic and social developments have increased the gap between the rich and the poor in some countries where the benefits of development have not been equitably shared. The majority of the poor and the rural population continue to be deprived and marginalized in most countries of the ESCWA region. The gap has been aggravated by structural imbalances and income disparities among countries of the region, between rural and urban

populations, and across populations. Inequitable distribution of resources at the regional level, inadequate energy supplies, water shortages, lack of food security and external debts in some countries of the region have further aggravated the problem of poverty. In the field of social welfare, the poor have been suffering from an inequitable distribution of benefits and services, unemployment and increasing poverty. In Jordan, for instance, the number of families living below the poverty line rose by 6.6 per cent in 1992, to 21.3 per cent of the total number of households in the country, up from 18.7 per cent in 1989. In Iraq, the increasing impoverishment of the majority of the population, and the Government's reduced ability to act as a welfare State owing to economic sanctions, have created new economic and social conditions.

49. During the past few decades, there has been a significant improvement in the basic health conditions of children in the ESCWA region. The mortality rates of children under five have decreased significantly in all countries of the region. However, in spite of the improvement in their basic health conditions, children continue to suffer from malnutrition in poor and war-torn communities of the region, particularly in Iraq, where the impact of the Gulf crisis on their situation persists.

50. The youth population in the region accounts for a high share of the unemployed. Education in the region is geared towards "prestigious" occupations rather than technical and vocational training. This situation has resulted in surplus labour in certain occupations that could not be absorbed within the labour market at the national and regional level; with long durations of unemployment, young people face the danger of economic and social marginalization.

51. Although the countries of the region have made good progress in channelling human and physical resources towards the objectives of prevention of disability and care for the disabled, the majority of disabled persons, particularly in rural areas, are marginalized from the mainstream of development in the ESCWA countries.

52. The traditional causes for impairment have been declining in relative importance owing to improved education and health care, whereas the magnitude of disability-related problems in the region has been increasing in size and scope recently as a result of armed conflicts, civil unrest and the suppression of the Palestinian population in the occupied territories.

53. Women in the ESCWA region have been able to achieve encouraging results in the areas of education, health and employment. However, minimal progress has been attained in creating legal awareness and raising the status of women to decision-making levels. This may be largely attributed to the impact of political instability, conflicts and socio-economic turmoil that has characterized the region for decades.

54. Women's literacy rates have reached new heights during the past years, ranging from 83 per cent in the case of the former Democratic Yemen and an average of about 70 per cent for Jordan, Kuwait and Lebanon, to a low of 34 per cent in Egypt and 28 per cent in Yemen. The literacy gap between males

and females has narrowed considerably owing to new policies such as "Education for All" encouraging higher enrolment of females in schools. In addition, expenditures on education as a percentage of total expenditures have increased substantially reflecting greater awareness by member countries of the importance of human development. In rural areas, however, the situation remains critical.

55. Overall health indicators for women have also been improving, including maternal and female infant mortality. Serious efforts by member Governments have been exerted to improve health standards. Policies and measures were adopted and applied with assistance from international specialized agencies to ensure higher standards of health. Most of the Gulf countries and a number of ESCWA countries with socialist tendencies (Egypt, Iraq, the Syrian Arab Republic and former Democratic Yemen) have pursued welfare policies and provided free health services to citizens. Public expenditure on preventive and curative health services as a percentage of total expenditure increased, as did the number of hospitals and expenditure on the acquisition of medical equipment and technology. This has had a positive impact on the overall health situation and access to health facilities in the region, in particular on infant and maternal mortality, fertility, life expectancy (e.g., for women in the Gulf countries, life expectancy is between 72 and 75 years). Family planning has become more acceptable in the region as literacy rates and better health are positively correlated with lower birth rates.

56. Political instability, compounded by increasing economic vulnerability and external dependence, together with inappropriate laws and legislation, have, to a great extent, limited the contribution of women to economic activity and withheld their full integration into the process of development in Western Asia.

Macroeconomic indicators for the ESCWA region, 1991-1993

	1991	1992	1993 a/
Gross domestic product (GDP) (billions of US dollars) b/	270.6	288.8	298.8
GDP growth rate (percentage)	(11.4)	6.8	3.5
External debt (billions of US dollars)	157.2	180.0	186.0
Debt-service payment (billions of US dollars)	15.4	16.2	16.5
External debt/GDP (percentage)	58.2	60.3	71.5
Exports (billions of US dollars)	89.9	87.1 c/	..
Imports (billions of US dollars)	74.6	99.2 c/	..
Balance of trade (billions of US dollars)	15.3	12.1 c/	..
Current account balance (billions of US dollars)	(37.8)	(19.6) d/	..
International reserves (billions of US dollars)	36.4	37.9	36.1 e/
International reserves/import ratio (months)	5.9	5.2	..
Oil production (millions of barrels per day)	13.8	14.9	15.6
Oil revenues (billions of US dollars)	68.0	78.1	72.5
Proved oil reserves (billions of barrels)	574.9	574.8	572.3
Proved oil reserves/total world oil reserves (percentage)	58.0	57.7	57.3
Proved oil reserves/production (years)	112.5	105.2	100.6
Natural gas reserves/total world gas reserves (percentage)	16.7	17.0	17.0
Agricultural imports (billions of US dollars)	13.8	15.4	..
Agricultural exports (billions of US dollars)	2.4	2.6	..
Agricultural trade balance (billions of US dollars)	(11.4)	(12.8)	..

Source: Economic and Social Commission for Western Asia, based on national and international sources.

Notes: Parentheses () indicate deficit or negative.
Two dots (..) indicate data is incomplete or not available.

a/ Estimates.

b/ At constant 1985 prices.

c/ Excluding Iraq.

d/ Excluding Iraq, Qatar, Lebanon, United Arab Emirates and Yemen.

e/ End of September.

Notes

1/ See report of the Secretary-General on economic stabilization programmes in developing countries (A/48/380), box.

2/ "Economic outlook, 1994", The NCB Economist, Henry T. Azzam, ed., vol. 14, No. 1 (January 1994), p. 1.

3/ "Recent developments in social funds and safety nets", background note prepared by the UNCTAD secretariat (UNCTAD/PA/2), 22 November 1993, para. 65.